

**HIRING OUTSIDE VENDORS ON FIRST PARTY PROPERTY CLAIMS**

CERTIFIED PUBLIC MANAGER PROJECT  
CLASS OF 2021  
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FEBRUARY 1, 2021

**Intro/Problem Statement:**

The South Carolina Insurance Reserve Fund (IRF) is a Division of the South Carolina State Fiscal Accountability Authority. The IRF functions as a governmental insurance operation and its mission statement is “To provide Property and Liability Insurance products that meet the needs of its governmental customers in a secure and financially responsible manner at the least possible cost”. These governmental customers are entities which include state agencies, public universities, counties, cities, and school districts among others. The IRF operates like an insurance company, by issuing policies, collecting premiums and by paying claims from the accumulated premiums in accordance with the terms and conditions of the insurance policies it has issued. The IRF provides two types of insurance – liability insurance and property insurance.

I have worked in the Claims Department at the IRF for almost 15 years. I am currently the First Notice of Loss Manager for the Claims Department. Prior to my current position, I worked as an internal claims adjuster and a claims manager. One key role I perform is to review all new claims and facilitate their handling. I identify potentially important factors, provide instruction when needed and decide which internal claims adjuster unit will handle each new claim. Besides being involved in management decisions, I can also have influence on how a claim is handled by an internal claims adjuster due to this key role.

When correctly handling a property insurance claim, an adjuster must analyze whether the policy covers the claim, whether any funds will be paid on the claim, and what amount is to be paid when applicable. This claims process requires the collection of information from the IRF

Insureds and their personnel. The process may include onsite inspection, damage appraisal, in-person document collection, personnel interviews and communication with third parties.

However, IRF has a small staff who do not perform property claim work outside the office.

Instead, outside vendors are hired to perform the needed onsite tasks as well as any other related work.

Hiring outside vendors is one method the IRF utilizes to meet the needs of their governmental customers (IRF Insureds). The work of outside vendors should contribute to the claims process concluding in an accurate and timely manner. The IRF directly pays outside vendors for their work, so these incurred expenses can be a factor that impacts the least possible cost in which IRF can provide insurance to its customers. Since the use of outside vendors means the involvement of another person(s) in the claims process and causes the IRF to incur additional costs, they should only be hired when beneficial for the claims process.

The type and complexity of property claims can vary greatly. A decision on whether to hire an outside vendor must be made on every property claim. Since there is no decision procedure, my experience has been these decisions of when to hire an outside vendor and whom to hire comes from personal experience or management direction.

GAP Statement:

There is no procedure regarding the decision factors for outside vendor hiring on first party property claims. Creating a process to help guide internal claims adjusters when deciding

whether to hire an outside vendor would be beneficial in sustaining consistency in the claims process, if data can support a logical procedure.

### **Data Collection:**

The goal of my data collection is to review the factors in the outside vendor hiring decision and whether the data figures from concluded claims accurately reflect these factors. From analysis of this data, I hope to establish a protocol for the hiring decision backed by numbers and the experience of the IRF staff.

The IRF currently insures over \$42.0 billion in property values. The lines of property insurance IRF offers are as follows:

- All Risk Coverage on Buildings and Contents
- Builders' Risk
- Data Processing Equipment and Media
- Inland Marine
- Business Interruption and Extra Expense

I will focus on first party property claims under the policies of *All Risk Coverage on Buildings and Contents* and *Data Processing Equipment and Media*. I've chosen to focus on these two policies because the other property insurance lines create reasonable comparison issues either due to too wide an array of insured property types or being very specialized with too few claims. My data is collected from two sources.

The first source is survey response. I formulated the survey questions based on my experience and input from other IRF management. There are currently five IRF internal claims adjusters who have authority to hire outside vendors on first party property claims. I distributed surveys to these five employees. It is important to note the experience level of these internal claims adjusters. On average, they have approximately 24 years of claims handling experience with approximately 5.5 years of this experience being with the IRF.

The second source is information from the IRF claims system. I gathered this data through manual reports and individual claim review. I collected data that reflects the factors in the survey I sent out where possible. The data is collected from closed 2020 claims that do not fall into a 'catastrophe' category (such as those involving hurricanes). IRF has a pre-determined outside vendor protocol for such 'catastrophe' claims, so data from these claims is not to be viewed in the same manner. To protect certain aspects of the collected data, some information will be illustrated by percentages instead of specific figures.

## **Data Analysis:**

### First Data Source

Results from the survey (Appendix A) are as follows:

Question 1: *Besides specific direction from IRF management, please rate from 1 to 5 how often you strongly consider the following factors when deciding whether to hire an outside vendor:*

*1= Never/Seldom Considered, 5= Always Considered*

FACTORS	AVERAGE OF RESPONSES
Amount/completeness of loss notice info	2.8
Cause of loss	3.2
Date of loss	2.4
Insured value of property	3.2
Loss location	2.6
Potential extent of damage	4.4
Type of damage	3.8
Type of Insured agency	2.0
Other	No applicable response

Question 2: *Besides specific direction from IRF management, please rate from 1 to 5 how often you strongly consider the following factors in determining which outside vendor can handle or is assigned a specific claim: 1= Never/Seldom Considered, 5= Always Considered*

FACTORS	AVERAGE OF RESPONSES
Guidance from co-workers	3.4
Next firm on list in claim system	1.6
Request from Insured	3.4
Your experience with that outside vendor	4.8
Other	No applicable response

Most Common Response to other survey questions (mostly open-ended questions):

- “Most of the time” an outside vendor works from initial claim setup to claim conclusion.
- The decision to hire an outside vendor after the initial claim setup is either due to changes in the severity/complexity of the property damage or there is a lack of communication from the IRF Insured.

- The decision to stop the outside vendor's work is due to the remaining claim work being handled directly by the IRF.
- Outside vendor hiring is deemed beneficial if the vendor's work provides clarity or expertise outside the IRF claims adjuster's role and the claim was resolved timely.
- The only reported suggestion to make the outside vendor hiring process more efficient is to have better communication from the IRF Insured.

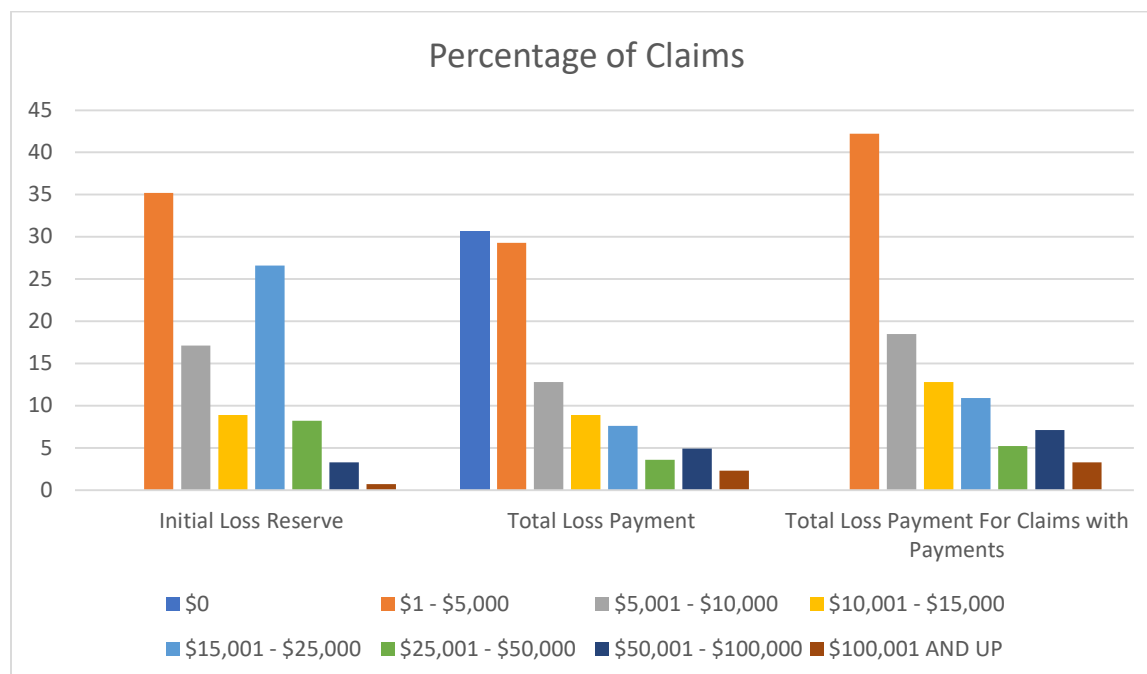
#### Survey Analysis:

The IRF internal claims adjusters believe the strongest factor when deciding to hire an outside vendor is the *potential extent of property damage*. This factor plus the *type of damage* and *insured value of property* (second and third strongest factors) are elements of the damage assessment stage of the claims process, which often requires onsite inspection. The *cause of loss* (tied for third strongest factor) is an element of determining whether the policy covers the claim. Clearly, the survey shows the damage assessment aspect of a claim is thought to be most important aspect when considering an outside vendor.

The IRF internal claims adjusters believe the strongest factor when deciding which outside vendor to hire is their own experience with the specific outside vendors. This is a human feature of the claims process. Given the response and difficulty in quantifying this issue with data, it is not an issue to further research at this time.

#### Second data source

Results from our claims system as are follows, first in graph form and then further discussion:



Terms to know for Percentage of Claims chart:

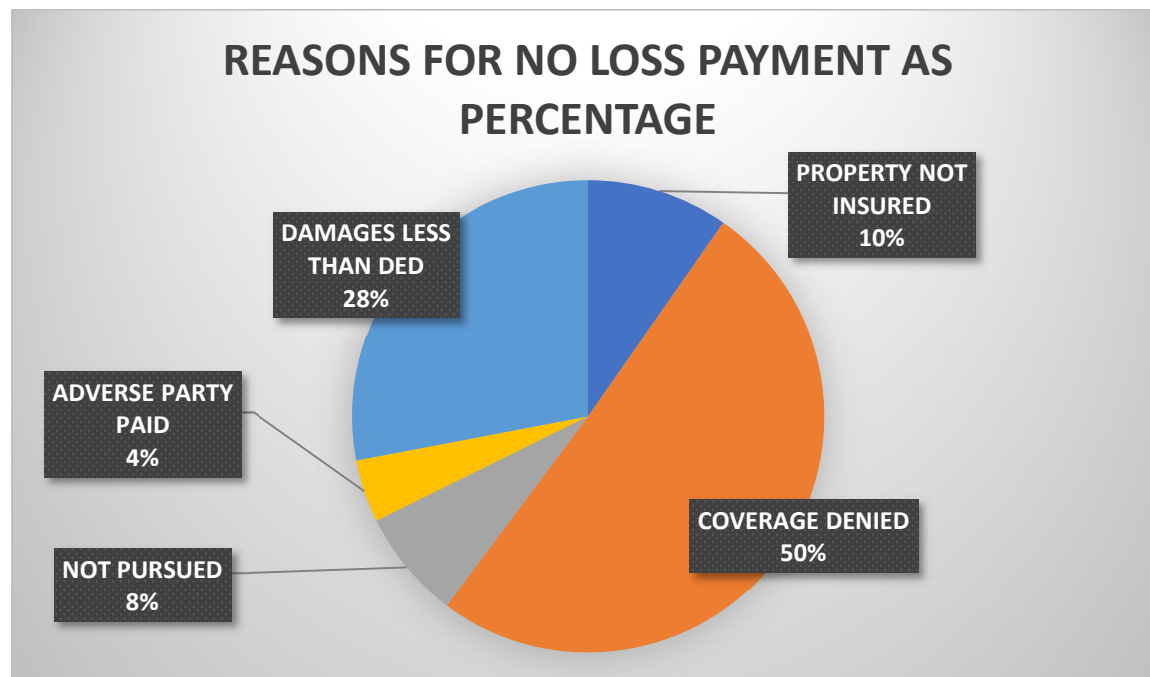
- Initial Loss Reserve – IRF internal claims adjuster estimate of the amount to be paid on the claim if there is coverage. This estimate is based on the claim information received, knowledge of the insured property and the adjuster’s experience.
- Total Loss Payment – Total amount paid to IRF Insured for incurred damages on a claim.
- Total Loss Payment For Claims with Payments – Percentages for claims where a loss payment was made (values after removing zero loss payments claims data).

Percentage of Claims chart analysis:

A slight majority the initial loss reserves are at \$10,000 and below, but results are too varied among to figure ranges to make a determination on this data set alone. The volume of claims



mostly decreases within total loss payment dollar ranges as the dollar range values increase. This trend holds true even when calculating claim percentages after removing the zero loss payment claims/data. In general, there are far less property claims with large damage values.



Terms to know for Percentage of Claims chart:

- Damages Less Than Ded – Volume of claims where damages were less than the policy deductible (*part of the damage assessment aspect of the claims process*).
- Property Not Insured –Volume of claims where the damaged property was not insured under the IRF-issued policy (*part of the cause of loss aspect of the claims process*).
- Coverage Denied – Volume of claims where the cause of damage was not covered under the IRF-issued policy (*part of the cause of loss aspect of the claims process*)

- Not Pursued – The IRF Insured failed to continue or pursue the claim to the conclusion of the claims process.
- Adverse Party Paid – Another party was at fault for the damage to the IRF Insured's property and compensated the IRF Insured directly.

Reasons for No Loss Payment as Percentage chart analysis:

This chart shows the reasons behind no loss payments (\$0) for the property claims from data was collected. One may think that these claims do not need an outside vendor. However, often coverage is denied because onsite inspection and interviews clarify the reason(s) for property damage which could not be confirmed solely from documentation received in the IRF office.

The same can be said for damages being below a policy deductible as onsite assessment by an outside vendor can confirm damage assessments. This specific data does not appear to be an important factor individually regarding the outside vendor hiring process, but this illustrates how the information an IRF internal claims adjuster has access to during a claim setup is often not the whole picture of a claim.

Other Data not shown in the charts above:

- Outside vendors were hired after the initial claim setup only 2.0% of the time. All these instances were either due to the IRF Insured not providing requested information in a timely manner or further information showing a much greater than expected extent of property damage.

- For claims where outside vendors were hired, 64.2 % resulted in IRF paying the vendor a total of \$1000 or less.
- Outside vendors were not hired on 42.1% of property claims.
  - No total loss payments above \$15,000 were made on these claims.
  - Most of these claims resulted in \$10,000 or less in total loss payments.

#### Other Data analysis:

The limited number of outside vendor assignments made after claim setup and the minority of claims where more than \$1000 are paid by IRF in expenses, show that these two possible issues have not been major factors in the claims handling process. Paying more than \$1000 for the services of an outside vendor is common. Given the relatively low total loss payments on claims where no outside vendor was hired, it appears the outside vendor hiring decisions have been successful from an extent of damage standpoint. This information, along with the Initial Loss Reserve data on the Percentage of Claims chart, appear to point to a line of delineation around \$10,000 to \$15,000 in the IRF internal claims adjusters hiring decision. Due to this, I looked intentionally at data regarding this \$10,000-\$15,000 line.

#### Further Data revolving around the \$10,000 - \$15,000 initial loss reserve range:

- No outside vendor hired on 4.2% of claims with initial loss reserve of \$15,001 and up.
- No outside vendor hired on 33.3% of claims with initial loss reserve of \$10,001-\$15,000.

While claims figures mostly represent the damage assessment part of the claims process, I reviewed the cause of loss aspect as well. There are a multitude of causes of property damage. However, my experience has shown the causes that often create the largest property damages are related to water, fire or structural storm damage. The term 'structural storm damage' is my term to indicate storm results that can cause structural damage to a building such as hail, fallen trees and high winds. Below is a table showing the percentage of claims within a total loss payment range that have possible water, fire or structural storm damage as a cause of loss:

<b>Total Loss Payment Range</b>	<b>Claims related to Water, Fire or Structural Storm Damage</b>
\$0	53.8%
\$1 - \$10,000	51.6%
\$10,001 - \$15,000	63.0%
\$15,001 and above	91.1%

The percentage from the \$0 total loss payment range may be a little skewed. There are many sources for water-related property damage which are not covered by the IRF-issued policy. A large percentage of the 'Coverage Denied' claims in the *Reasons for No Loss Payment as Percentage* chart are water-related claims. The percentage in this table for the \$0 range is higher than it would be if only claims where no payment was made due to damage assessment were considered. This table shows that as the value of the property damage increases so does the correlation to water, fire or structural storm damage.

#### Solution to Problem:

Ultimately, the initial loss reserve set by an internal claims adjuster is just a best estimate based on information provided and professional experience. There is no one-size-fits-all directive for outside vendor hiring. Therefore, I believe it is best not to generate an officially enforced

procedure for this situation, but rather create an unofficial guide to assist with the outside vendor hiring decision.

My solution to the lack of a decision procedure regarding the outside vendor hiring on first party property claims is to propose a straightforward process. This process will instruct the IRF internal claims adjusters to hire an outside vendor at the initial claim setup:

- If they assess an initial loss reserve over \$15,000

OR

- If the claim is the result of water, fire or structural storm damage

OR

- If there is a lack of information/communication from the IRF Insured regarding the extent or cause of damage which cannot be immediately addressed

The third lack of information/communication parameter gives the internal claims adjusters some flexibility in their decision should there be an unusual situation where hiring an outside vendor may still be beneficial. IRF is fortunate with the level of experience it currently has with its internal claims adjusters, so they have allowance for such flexibility.

#### **Implementation Plan:**

The first step to implement this procedural guide is to seek upper management approval of its adoption. This includes explaining the data behind the process. Once approved, this would be presented to the other management in the IRF Claims Department as well as the internal claims adjusters. I would handle the communication throughout this process.

Since this is an internal process, there are no associated extra costs and the time frame should be a matter of days or weeks to go through the approval and implementation. Once presented to the staff, this new informal procedure can be used immediately. I do not expect any resistance from the other management or internal claims adjusters as the process is derived from the data that they technically created or were directly involved in.

What I have set out above does not have to be a finished product. Any process, regardless of complexity and formality, should be adaptable. After implementation, I will seek further initial feedback from the claims staff and assess any immediate suggestion for process improvement. After this stage, the new outside vendor hiring process should be in use with the other instructional material used by the IRF Claims Department.

**Evaluation Method:**

The success of this new process should be measured through the same tools used to collect information for this project. Six months after implementation, the IRF internal claims adjusters will be sent surveys regarding the process and outside vendor hiring. IRF claims system data will be collected. The survey results and claims system data will be analyzed in the same manner to assess any changes. Another follow-up will be done after one year to check any longer trends.

While the focus of this post-implementation evaluation of this new process will be on claim information and loss payments, one aspect of that will also need to be evaluated is the amount

IRF spends on outside vendors. As stated earlier, these incurred expenses can be a factor that impacts the least possible cost in which IRF can provide insurance to its customers. If the amount which IRF spends on outside vendors increases relative to the data I've collected, then that could be an indication the process is not being effectively used. It could also mean there are new or changed factors to take into consideration.

**Summary and Recommendations:**

There is currently no procedure regarding the decision factors for outside vendor hiring on first party property claims. Using survey and claim data, I have generated a process to assist the IRF internal claims adjusters when deciding whether to hire an outside vendor. The process should guide the claims adjusters when the information and experience at hand does not provide an obvious choice regarding whether to hire an outside vendor. This guidance should reduce subjectivity in the hiring decisions, which in turn should help reduce unnecessary vendor hiring. The process should also help maintain consistency as I have identified measures to monitor regarding the extent and cause of damage in relation to outside vendor use on property claims.

As mentioned previously, the IRF has a very experienced internal claims adjuster staff.

Unfortunately, such an experience level is not guaranteed to be constant. This new process will be useful whenever the IRF has less experienced internal claims adjuster personnel as it should help reduce the increased inconsistencies that naturally occur with less job experience.

I recommend that if this new process is deemed successful after implementation and evaluation, that other activities should be reviewed to see if this same approach could be applied for a positive outcome.



## **Appendix A**

### **SURVEY ON OUTSIDE VENDOR ASSIGNMENTS FOR FIRST PARTY PROPERTY CLAIMS:**

Name:

Number of Years with IRF:

Number of Years handling claims (include IRF years):

Besides specific direction from IRF management, please rate from 1 to 5 how often you strongly consider the following factors when deciding whether to hire an outside vendor:

1= Never/Seldom Considered

5= Always Considered

\_\_\_\_\_ Amount/completeness of loss notice info

\_\_\_\_\_ Cause of loss

\_\_\_\_\_ Date of loss

\_\_\_\_\_ Insured value of property

\_\_\_\_\_ Loss location

\_\_\_\_\_ Potential extent of damage

\_\_\_\_\_ Type of damage

\_\_\_\_\_ Type of Insured agency

\_\_\_\_\_ Other – please list \_\_\_\_\_

Besides specific direction from IRF management, please rate from 1 to 5 how often you strongly consider the following factors in determining which outside vendor can handle or is assigned a specific claim:

1= Never/Seldom Considered

5= Always Considered

\_\_\_\_\_ Guidance from co-workers

\_\_\_\_\_ Next firm on list in claim system

\_\_\_\_\_ Request from Insured

\_\_\_\_\_ Your experience with that IA

\_\_\_\_\_ Other – please list \_\_\_\_\_

Please select one choice:

Do you have assigned outside vendors work on a claim from your initial set up until you pay a claim?

- ☐ Always
- ☐ Almost always
- ☐ Most of the time
- ☐ Some of the time
- ☐ Seldom
- ☐ Never

If you ever assign outside vendors sometime after the initial claim set up, what are factors that affect that decision?

What are factors that affect when you stop an outside vendor assignment?

After the conclusion of a claim, what are factors you consider when evaluating whether an outside vendor assignment was beneficial?

Are there any suggestions you have which could make the decision to hire outside vendors or to what extent to have outside vendors work more efficient for you?